

Consignment

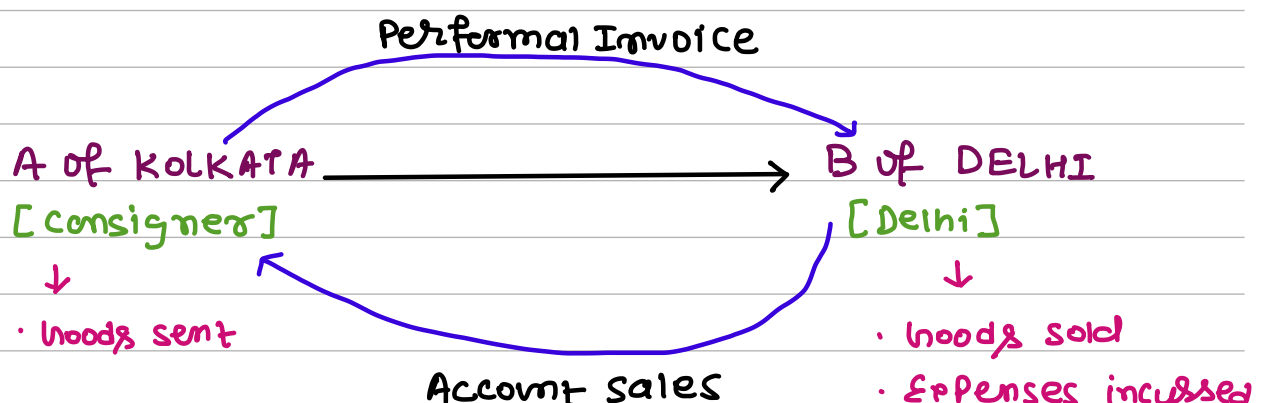
I. Introduction

A. Meaning

- Consignment is a kind of business expansion without actually opening a branch in a new potential area. Under this business owner (**Consigner**) sends goods to the agent (**Consignee**) to be sold by consignee on Commission basis.
- Ownership of the goods remains with the Consigner only until and unless goods sold by consignee and ownership transfers to buyers directly on selling of goods by consignee. Hence, the relationship of Consigner and Consignee is that of a **Principal and agent**.

B. Procedure

- Consigner sends goods to Consignee along with a document called **Performa Invoice** containing details of goods sent, Price at which it can be sold, by incurring expenses (**Freight, insurance, etc.**)
- Consignee receives goods by paying unloading charges and take the goods to the godown.
- Now Consignee sales goods and sends all details of various expenses incurred (**Unloading charges, transport charges, godown rent, Electricity, selling expenses, etc.**) and goods sold, in a document called **Account Sales**.



2. Basic Terms used in Consignment

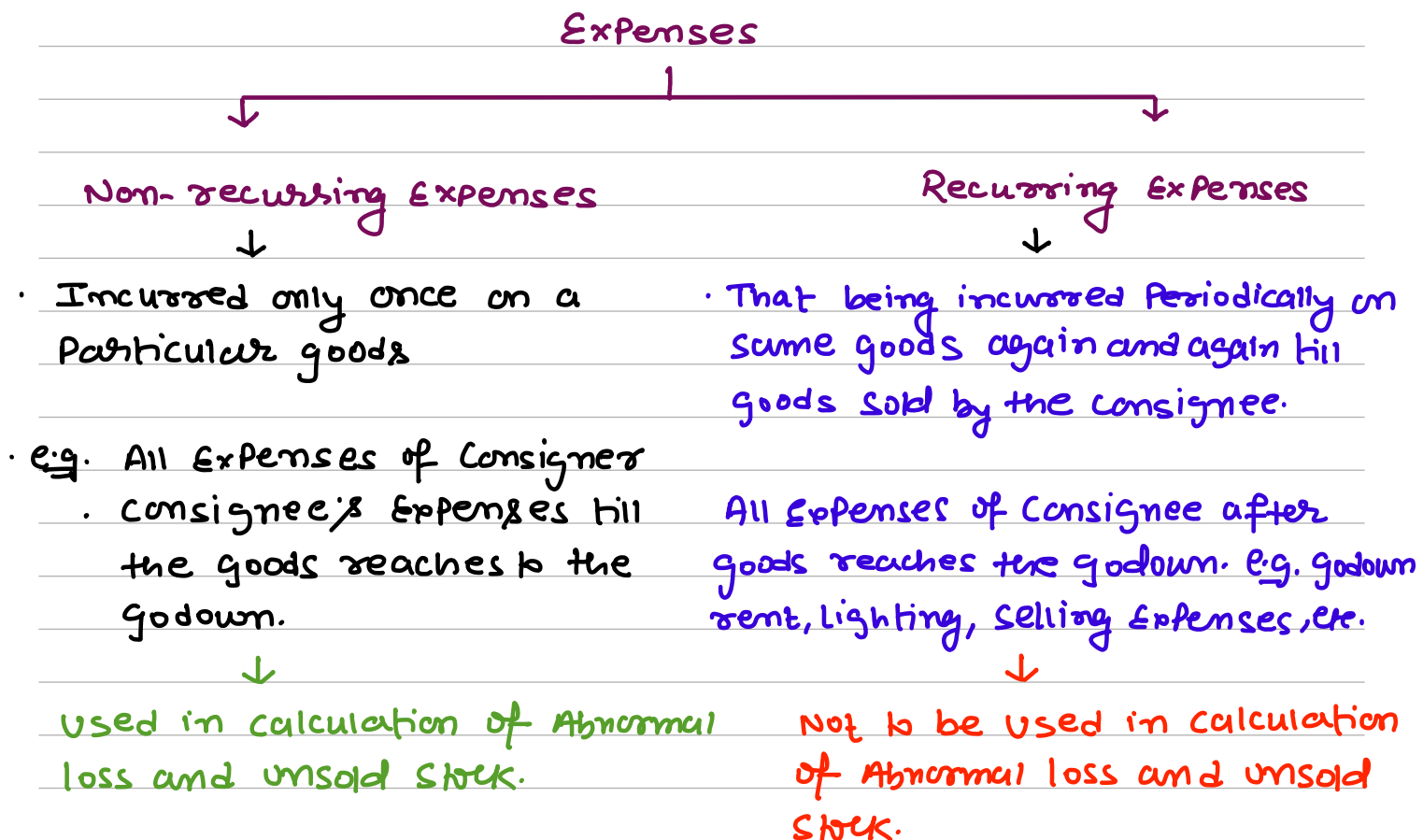
i) Performa Invoice

- A document sends by Consigner to the Consignee Containing the details of goods sent, minimum Selling Price, etc.

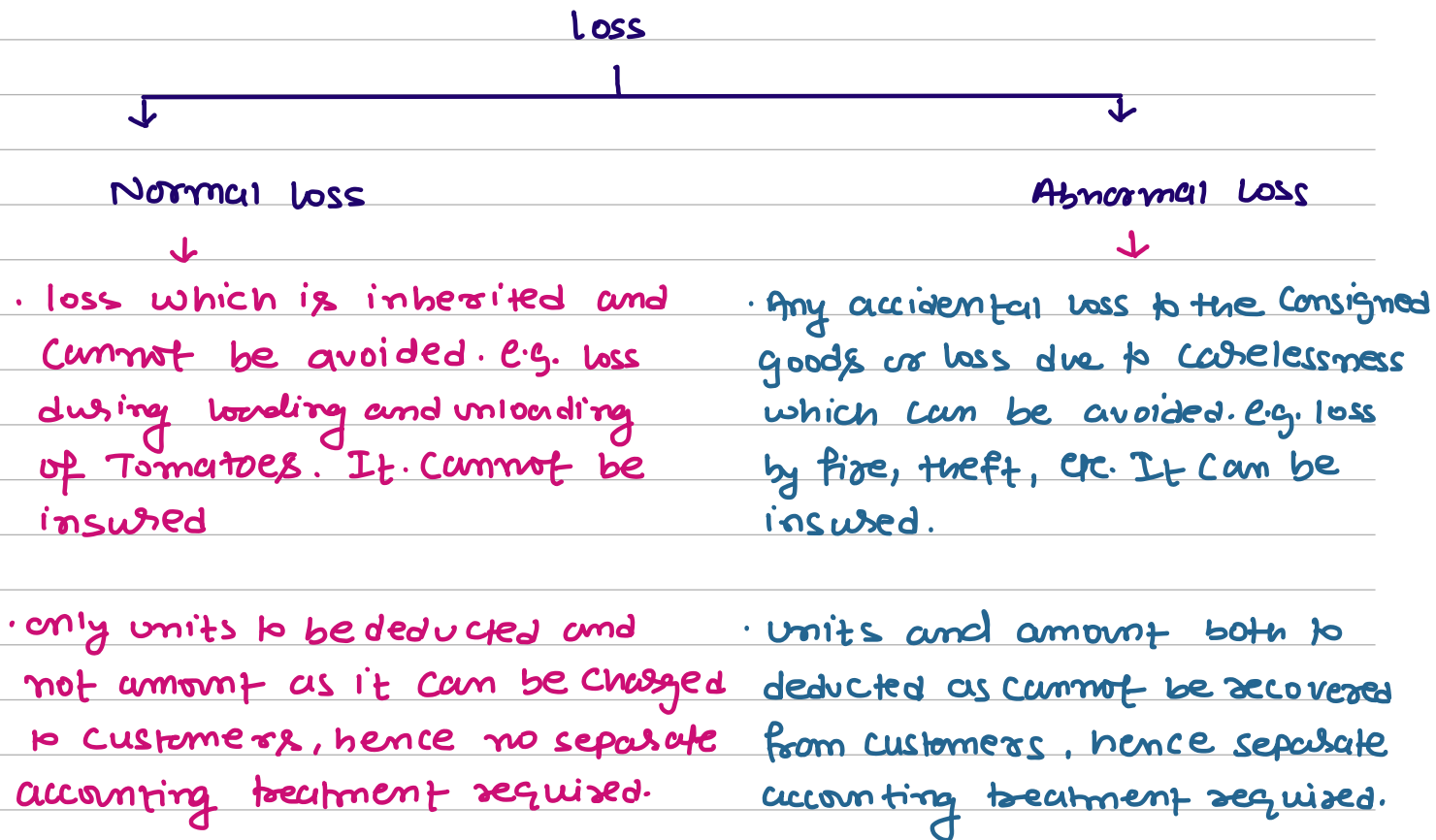
ii) Account sales

- A document sends by Consignee to the Consigner Containing the details of goods sold, expenses incurred, unsold goods with consigner, remittance made, etc.

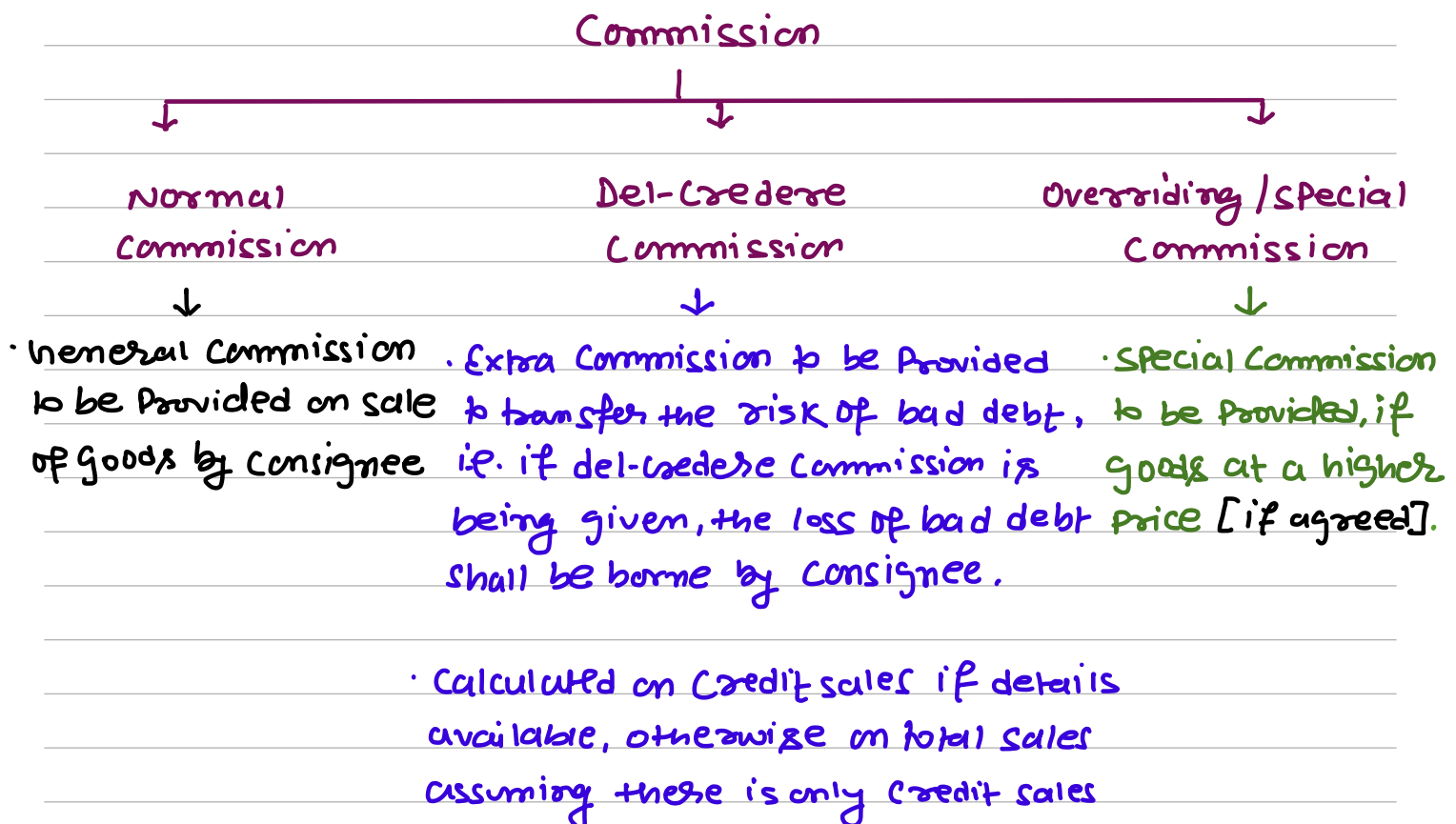
iii) Expenses in Consignment



iv) Losses in Consignment



v) Commission Charged by Consignee



vi) Calculation of Abnormal loss and closing stock

	Units	Amount
Goods sent	✓	✓
<u>Add:-</u> Consignor's Expenses	<u>✓</u>	<u>✓</u>
<u>Less:-</u> Normal loss (if any)	(✓)	
<u>:-</u> Abnormal loss (only if happened before goods received by consignee)	<u>(✓)</u>	<u>(✓)</u>
<u>Add:-</u> Non-recurring Expenses of Consignee	<u>✓</u>	<u>✓</u>
<u>Less:-</u> Abnormal loss [loss after goods received by consignee]	<u>(✓)</u>	<u>(✓)</u>
	<u>✓</u>	<u>✓</u>

value of unsold stock

$$= \frac{\text{Total Cost}}{\text{Total units}} \times \text{unsold units}$$

3. Recording of Transactions [Journal Entries]

A. In the books of Consigner

i) Goods sent on Consignment

Goods sent on Consignment A/c...or.	Cost
To Trading A/c / Purchase A/c	Price

Consignment to.... A/c --- Dr Cost Price
To Goods sent on consignment A/c OR
Invoice Price

ii) Expenses incurred on sending goods [Freight and Insurance]

Consignment p... MC -- Dr. ✓
To cash/Bank ✓

iii) Advance received from Consignee

Cash/Bank/Bill Receivable ✓
To Consignee A/c ✓

iv) Account Sales received from Consignee

a. Goods sold by Consignee

- with del-credere Commission

Consignee A/c -- Dr. [Cash + Credit]
To Consignment to... A/c Sales

- without del-credere Commission

Consignee A/c -- Dr. Cash sales
Consignment Debtors A/c -- Dr. Credit sales
To Consignment to... A/c Total sales

Note:- No Entry for bad debt shall be passed in the books of Consignor if del-credere Commission is provided.

b. Expenses incurred by Consignee (including Commission)

Consignment to... A/c -- Dr. ✓
To Consignee A/c ✓

c. Receiving remittance from Consignee

Cash/Bank A/c -- Dr.
To Consignee A/c

d. unsold Stock with Consignee

Stock on Consignment A/c -- Dr. ✓
To Consignment to... A/c ✓

v) Normal loss

- NO Entry -

vi) Abnormal Loss

Abnormal Loss (Insurance Claim) A/c -- Dr. Claim Admitted

Abnormal Loss (Profit and Loss) A/c -- Dr. Claim not Admitted

To Consignment A/c

Total Loss

Note:- If goods are not insured then whole amount shall be transferred to P/L A/c.

vii) Removing load item in goods

If goods are sent to consignee at Invoice Price then load should be remove from following items -

a. Goods sent on Consignment

Goods sent on Consignment A/c -- Dr.

Load

To Consignment to... A/c

Profit

b. Unsold Stock with Consignee

Consignment to A/c -- Dr.

Load

To Closing Stock Reserve A/c

Profit

viii) Profit or loss on Consignment

Profit on Consignment

Consignment to... A/c -- Dr.

To Profit on Consignment

Loss on Consignment

Loss on Consignment A/c -- Dr.

To Consignment to... A/c

B. In the books of Consignee

i) Goods received on Consignment

— NO Entry —

Note:- As Consignee hold these goods on behalf of Consigner, he is not required to pass entry for receiving goods. He, may however record the details in a separate book.

ii) Advance made to Consigner

Consigner A/c --- Dr.

To Cash/Bank/Bills Payable A/c

iii) Expenses incurred on Consignment and Commission earned

Consigner A/c --- Dr. ✓

To Cash/Bank A/c ✓

To Commission Received A/c ✓

iv) Good sold

Cash/Bank

Cash sales

Consignment Debtors

Credit sales

To Consigner A/c ✓

Note:- Credit Sales shall be recorded by Consignee only if del credere Commission is given to consignee, otherwise Consignee will not record Credit Sales.

• If del-credere Commission received then loss of bad debt shall be borne by consignee and he should adjust the same with Commission income.

v) Sending Remittance

Consigner A/c --- Dr.

To Bank/Cash

vi) Unsold Stock

- NO Entry -

4. Ledger Accounts

In the books of Consigner

Consignment To.... Account

Dr.					Cr.
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Goods sent on Consignment	✓		By Consignee - Sales	✓
	To Bank				
	- Freight	✓		By Abnormal loss - Claim	✓
	- Carriage	✓			
	- Insurance	✓		By Abnormal loss - P/L	✓
	To Consignee A/c				
	- Clearing charges	✓		By Stock on Consignment	✓
	- Carriage	✓			
	- Godown Rent	✓			
	- Lighting	✓		By Goods sent on Consignment - Wast	✓
	- Selling Exp	✓			
	- Commission	✓			
	To Stock Reserve - Wast	✓			
	To P/L on Consignment	✓		By P/L on Consignment	✓
		✓			✓

Dr.					Cr.
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To Consignment to ... A/c. - Sales	✓		By Consignment to A/c	✓
				By Bank	✓
				By B/R	✓
				By Bal c/d	✓
		✓			✓

In the books of Consignee

Dr. Consignee's Account Cr.					
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
	To cash/Bank/BP	✓		By cash/Bank	✓
	- Advance			- Sales	
	To cash/Bank	✓			
	- Expenses				
	To Commission	✓			
	To cash/Bank	✓			
	Remittances				
	-				
	To bal c/d	✓			